

P. W. Fawcett

LOWELL CHARTER TOWNSHIP
Kent County, Michigan

Comprehensive Annual Financial Report

For the year ended March 31, 2007

LOWELL CHARTER TOWNSHIP
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For the year ended March 31, 2007

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

July 9, 2007

The Township Board
Lowell Charter Township
Kent County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lowell Charter Township (the "Township") as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the elected officials and management of the Township. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lowell Charter Township as of March 31, 2007, and the respective changes in financial position and cash flows of its proprietary fund types and budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section and supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Lowell Charter Township. Such information, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungerford, Aldrin, Nichols & Carter, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

LOWELL CHARTER TOWNSHIP
Management's Discussion and Analysis
March 31, 2007

As management of the Lowell Charter Township ("the Township"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2007. We encourage readers to consider the information presented here in conjunction with the Township's financial statements, which immediately follow this section.

Financial Highlights

- The Township's net assets increased by \$173,562 (or 3 percent).
- Total expenses of the Township's programs were \$1,031,599.
- Total revenues, including all program and general revenues, were \$1,205,161.
- At the close of the current year, the Township's governmental funds reported combined ending fund balances of \$1,039,769, a decrease of \$10,663 from the prior year.
- At the end of the current year, the unreserved/undesignated fund balance for the General Fund was \$935,261, or 156 percent of total General Fund expenditures.
- The Township's Enterprise Funds had \$3,404,530 in net assets at year-end.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g. uncollected property taxes and earned but uncollected sewer usage fees and special assessments).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include general government, public safety and public works. The business-type activities of the Township are the Water and Sewer Enterprise Funds.

LOWELL CHARTER TOWNSHIP
Management's Discussion and Analysis
March 31, 2007

The government-wide financial statements can be found on pages 11-13 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Township maintains two governmental funds. Information is presented separately in the governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances for the General Fund which is considered to be a major fund. The basic governmental fund financial statements can be found on pages 14-18 of this report.

The Township adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township maintains the Water and Sewer Enterprise Funds to account for its water supply system and sanitary sewer usage operation and maintenance. The basic proprietary fund financial statements can be found on pages 19-21 of this report.

Fiduciary funds provide information about the financial relationships in which the Township acts solely as a trustee or agent for the benefit of others. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Township's own programs. The accounting used for fiduciary funds is like that used for proprietary funds.

Notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 24-35 of this report.

LOWELL CHARTER TOWNSHIP
Management's Discussion and Analysis
March 31, 2007

Government –Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Lowell Charter Township, assets exceeded liabilities by \$5,969,843 at the close of the fiscal year.

A substantial portion of the Township's net assets, \$2,773,781 (46 percent), reflects its investment in capital assets (e.g. land, buildings, water and sewer system, and equipment). The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The Statement of Net Assets provides financial information on the Township as a whole as of March 31, 2007.

Lowell Charter Township's Net Assets

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Assets						
Current and other assets	\$ 1,059,487	\$ 1,082,256	\$ 2,186,296	\$ 2,053,996	\$ 3,245,783	\$ 3,136,252
Capital assets	1,525,544	1,542,868	1,863,237	1,955,774	3,388,781	3,498,642
Total Assets	2,585,031	2,625,124	4,049,533	4,009,770	6,634,564	6,634,894
Liabilities						
Current liabilities	19,718	31,824	115,003	191,789	134,721	223,613
Noncurrent liabilities	—	—	530,000	615,000	530,000	615,000
Total Liabilities	19,718	31,824	645,003	806,789	664,721	838,613
Net Assets						
Invested in capital assets, net						
of related debt	1,525,544	1,542,868	1,248,237	1,245,774	2,773,781	2,788,642
Restricted	104,508	168,866	—	—	104,508	168,866
Unrestricted	935,261	881,566	2,156,293	1,957,207	3,091,554	2,838,773
Total Net Assets	\$ 2,565,313	\$ 2,593,300	\$ 3,404,530	\$ 3,202,981	\$ 5,969,843	\$ 5,796,281

At the end of the current fiscal year, the Township is able to report positive balances in all three categories of net assets, both for the government as a whole, and for its separate governmental and business-type activities.

LOWELL CHARTER TOWNSHIP
Management's Discussion and Analysis
March 31, 2007

The Statement of Activities presents changes in net assets from operating results for the year ended March 31, 2007:

Lowell Charter Township's Changes in Net Assets

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues						
Program revenue:						
Charges for services	\$ 23,885	\$ 29,817	\$ 514,343	\$ 476,533	\$ 538,228	\$ 506,350
Capital grants and contributions	—	—	45,382	309,996	45,382	309,996
General revenue:						
Property taxes	134,164	133,165	—	—	134,164	133,165
State sources	359,556	377,677	—	—	359,556	377,677
Investment earnings	40,692	41,807	65,117	55,641	105,809	97,448
Other	32,548	44,375	—	—	32,548	44,375
Gain (loss) on disposal of assets	(10,526)	—	—	—	(10,526)	—
Total Revenues	580,319	626,841	624,842	842,170	1,205,161	1,469,011
Expenses						
General government	312,897	306,363	—	—	312,897	306,363
Public safety	110,950	73,719	—	—	110,950	73,719
Public works	30,828	31,478	—	—	30,828	31,478
Community and economic development	41,251	43,829	—	—	41,251	43,829
Recreation and cultural	42,443	70,977	—	—	42,443	70,977
Other township	69,937	42,860	—	—	69,937	42,860
Water operations	—	—	270,666	291,854	270,666	291,854
Sewer operations	—	—	152,627	121,175	152,627	121,175
Total Expenses	608,306	569,226	423,293	413,029	1,031,599	982,255
Increase (Decrease) In Net Assets	(27,987)	57,615	201,549	429,141	173,562	486,756
Net Assets - beginning of year	2,593,300	2,535,685	3,202,981	2,773,840	5,796,281	5,309,525
Net Assets - end of year	<u>\$2,565,313</u>	<u>\$2,593,300</u>	<u>\$3,404,530</u>	<u>\$3,202,981</u>	<u>\$5,969,843</u>	<u>\$5,796,281</u>

Governmental activities decreased the Township's net assets by \$27,987. Key elements of this decrease were the increases in Public Safety (fire protection) and Gypsy Moth protection combined with a reduction in State revenue sharing.

LOWELL CHARTER TOWNSHIP
Management's Discussion and Analysis
March 31, 2007

Business activities (water and sewer operations) increased the Township's net assets by \$201,549 due mainly to connection fees and capital contributions of \$45,382, interest earnings of \$65,117 and an increase in operation and maintenance expenses of only \$10,264.

Financial Analysis of the Township's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$1,039,769, a decrease of \$10,663 in comparison with the prior year. 90 percent of this total amount constitutes unreserved/undesignated fund balance, which is available for spending at the Township's discretion.

Lowell Charter Township's funds are described as follows:

Major Fund

The *General Fund* is our primary operating fund. The General Fund had total revenues of \$590,075 and total expenditures of \$601,508. It ended the year with a fund balance of \$967,464, down from \$978,897 at March 31, 2006.

Nonmajor Fund

The *Cemetery Permanent Fund* collects cemetery receipts and interest earnings to be used for Township cemetery improvements. Revenues totaled \$770 and expenditures were zero for the fiscal year, increasing the fund balance to \$72,305 at March 31, 2007.

Proprietary funds. The Township's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail. The Water Enterprise Fund had total revenues of \$447,255 and total expenses of \$270,666, with net assets of \$2,153,978 at March 31, 2007. The Sewer Enterprise Fund had total revenues of \$177,587 and total expenses of \$152,627, with net assets of \$1,250,552 at March 31, 2007.

General Fund Budgetary Highlights

Over the course of the year, the Township revised the annual operating budget to comply with Michigan Department of Treasury guidelines. The budget amendments were made to reflect changes in revenues and expenditures as they occurred during the year, including increased public safety and gypsy moth protection expenditures.

LOWELL CHARTER TOWNSHIP
Management's Discussion and Analysis
March 31, 2007

Capital Asset and Debt Administration

Capital Assets

At March 31, 2007, the Township had a \$4,831,897 investment in a broad range of capital assets, including land, land improvements, water and sewer system, buildings and improvements, and furniture and equipment. (More detailed information about capital assets can be found in the Notes To Basic Financial Statements.)

Capital asset purchases totaled \$53,169 for the fiscal year with accumulated depreciation increasing \$152,504. The net book value of capital assets at March 31, 2007 is detailed as follows:

	Governmental Activities	Business-type Activities	Total
Land	\$ 155,596	\$ 36,158	\$ 191,754
Land improvements	565,065	—	565,065
Buildings and improvements	702,563	—	702,563
Water and sewer system	—	1,827,079	1,827,079
Office furnishings and equipment	102,320	—	102,320
Net Capital Assets	\$ 1,525,544	\$ 1,863,237	\$ 3,388,781

Long-Term Debt

At year end the Township had \$615,000 in water and sewer revenue and special assessment bonds outstanding. Prior year debt balances were reduced by payments of \$95,000 during the current year. There is more detailed information about long-term liabilities in the Notes to Basic Financial Statements.

Factors Bearing on the Township's Future

At the time these financial statements were prepared and audited, the Township was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The Township's initial General Fund budget for 2007-08 is balanced, with budgeted revenues and expenditures each totaling \$565,850. This estimate reflects conservative budgeting for property tax revenues, continuing reductions in state shared revenues and a small decrease in total expenditures over 2006-07. The Township strives to maintain a high quality of taxpayer service, while trying to control/reduce costs within the Township.

Contacting the Township's Financial Management

This financial report is designed to provide the Township's citizens, taxpayers, customers, and investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Linda Regan, Township Clerk, Lowell Charter Township, 2910 Alden Nash SE, Lowell, MI, 49331.

BASIC FINANCIAL STATEMENTS

LOWELL CHARTER TOWNSHIP
Statement of Net Assets
March 31, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets			
Cash	\$ 83	\$ -	\$ 83
Cash equivalents, deposits and investments (Note B)	990,597	1,886,440	2,877,037
Receivables:			-
Taxes	10,516	-	10,516
Accounts	-	130,452	130,452
Special assessments - current portion	-	50,000	50,000
Due from other funds (Note C)	-	4,681	4,681
Due from other governmental units	58,291	-	58,291
Total Current Assets	1,059,487	2,071,573	3,131,060
Noncurrent Assets			
Special assessments receivable - net of current portion	-	86,631	86,631
Unamortized bond issue costs	-	28,092	28,092
Capital assets, net of accumulated depreciation (Note D)	1,525,544	1,863,237	3,388,781
Total Noncurrent Assets	1,525,544	1,977,960	3,503,504
Total Assets	2,585,031	4,049,533	6,634,564
Liabilities			
Current Liabilities			
Accounts payable	15,037	24,357	39,394
Due to other funds (Note C)	4,681	-	4,681
Accrued interest payable	-	5,646	5,646
Current portion of noncurrent liabilities	-	85,000	85,000
Total Current Liabilities	19,718	115,003	134,721
Noncurrent Liabilities (Note E)			
Revenue bonds payable	-	390,000	390,000
Special assessment bonds payable	-	225,000	225,000
Less current portion of noncurrent liabilities	-	(85,000)	(85,000)
Total Noncurrent Liabilities	-	530,000	530,000
Total Liabilities	19,718	645,003	664,721
Net Assets			
Invested in capital assets, net of related debt	1,525,544	1,248,237	2,773,781
Restricted for:			
Cemetery	72,305	-	72,305
Gypsy Moth	5,845	-	5,845
Railroad acquisition project	26,358	-	26,358
Unrestricted	935,261	2,156,293	3,091,554
Total Net Assets	\$ 2,565,313	\$ 3,404,530	\$ 5,969,843

See accompanying notes to basic financial statements.

LOWELL CHARTER TOWNSHIP
Statement of Activities
For the year ended March 31, 2007

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary Government			
Governmental activities:			
General government	\$ 312,897	\$ 15,154	\$ -
Public safety	110,950	8,731	-
Public works	30,828	-	-
Community and economic development	41,251	-	-
Recreation and cultural	42,443	-	-
Other township	69,937	-	-
Total governmental activities	608,306	23,885	-
Business-type activities:			
Water	270,666	356,133	45,082
Sewer	152,627	158,210	300
Total business-type activities	423,293	514,343	45,382
Total Primary Government	\$ 1,031,599	\$ 538,228	\$ 45,382

General revenues:
Property taxes levied for:
 General operations
State revenue sharing
Unrestricted investment earnings
Other
Gain (loss) on disposal of capital assets

Total General Revenues

Change in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

See accompanying notes to basic financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business- Activities	Total
\$ (297,743)	\$ -	\$ (297,743)
(102,219)	-	(102,219)
(30,828)	-	(30,828)
(41,251)	-	(41,251)
(42,443)	-	(42,443)
(69,937)	-	(69,937)
(584,421)	-	(584,421)
-	130,549	130,549
-	5,883	5,883
-	136,432	136,432
(584,421)	136,432	(447,989)
134,164	-	134,164
359,556	-	359,556
40,692	65,117	105,809
32,548	-	32,548
(10,526)	-	(10,526)
556,434	65,117	621,551
(27,987)	201,549	173,562
2,593,300	3,202,981	5,796,281
<u>\$ 2,565,313</u>	<u>\$ 3,404,530</u>	<u>5,969,843</u>

LOWELL CHARTER TOWNSHIP
Balance Sheet
Governmental Funds
March 31, 2007

	General	Other Governmental	Total
Assets			
Cash	\$ 83	\$ -	\$ 83
Cash equivalents, deposits and investments (Note B)	916,292	74,305	990,597
Taxes receivable	10,516	-	10,516
Due from other governmental units	58,291	-	58,291
Total Assets	\$ 985,182	\$ 74,305	\$ 1,059,487
Liabilities and Fund Balances			
Liabilities			
Accounts payable	13,037	2,000	15,037
Due to other funds (Note C)	4,681	-	4,681
Total Assets	17,718	2,000	19,718
Fund Balances			
Unreserved:			
Designated, reported in:			
General fund	32,203	-	32,203
Cemetery fund	-	72,305	72,305
Undesignated	935,261	-	935,261
Total Fund Balances	967,464	72,305	1,039,769
Total Liabilities and Fund Balances	\$ 985,182	\$ 74,305	\$ 1,059,487

See accompanying notes to basic financial statements.

LOWELL CHARTER TOWNSHIP
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
March 31, 2007

Total governmental fund balances	\$ 1,039,769
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$2,046,943 and accumulated depreciation is \$521,399.	
	<u>1,525,544</u>
Total net assets - governmental activities	<u><u>\$ 2,565,313</u></u>

See accompanying notes to basic financial statements.

LOWELL CHARTER TOWNSHIP
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended March 31, 2007

	General	Other Governmental	Total
Revenues			
Taxes	\$ 134,164	\$ -	\$ 134,164
Licenses and permits	8,731	-	8,731
State sources	359,556	-	359,556
Charges for services	14,554	600	15,154
Interest and rentals	40,522	170	40,692
Other	32,548	-	32,548
Total Revenues	<u>590,075</u>	<u>770</u>	<u>590,845</u>
Expenditures			
Current:			
General government	299,147	-	299,147
Public safety	110,950	-	110,950
Public works	30,828	-	30,828
Community and economic development	41,251	-	41,251
Recreational and cultural	49,395	-	49,395
Other township	69,937	-	69,937
Total Expenditures	<u>601,508</u>	<u>-</u>	<u>601,508</u>
Net Change in Fund Balances	(11,433)	770	(10,663)
Fund Balances, April 1	<u>978,897</u>	<u>71,535</u>	<u>1,050,432</u>
Fund Balances, March 31	<u><u>\$ 967,464</u></u>	<u><u>\$ 72,305</u></u>	<u><u>\$ 1,039,769</u></u>

See accompanying notes to basic financial statements.

LOWELL CHARTER TOWNSHIP
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
For the year ended March 31, 2007

Net change in fund balances - total governmental funds \$ (10,663)

Amounts reported for governmental activities in the Statement
of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the
Statement of Activities, the cost of these assets is capitalized and the cost
is allocated over their estimated useful lives as depreciation expense. This
is the amount by which depreciation exceeded capital outlays in the current
period.

Capital outlays	\$ 53,169	
Depreciation expense	<u>(59,967)</u>	(6,798)

In the Statement of Activities, only the gain on the sale of capital assets
is reported, whereas in the governmental funds, the proceeds from the
sale(s) increase financial resources. Thus, the change in net assets
differs from the change in fund balance by the cost of the assets sold.

(10,526)

Total change in net assets - governmental activities

\$ (27,987)

See accompanying notes to basic financial statements.

LOWELL CHARTER TOWNSHIP
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended March 31, 2007

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 119,580	\$ 129,580	\$ 134,164	\$ 4,584
Licenses and permits	22,400	8,400	8,731	331
State sources	372,600	372,600	359,556	(13,044)
Charges for services	1,000	14,500	14,554	54
Interest and rentals	25,100	27,100	40,522	13,422
Other revenue	36,300	36,600	32,548	(4,052)
Total Revenues	576,980	588,780	590,075	1,295
Expenditures				
Current:				
General government	198,261	300,961	299,147	1,814
Public safety	78,000	96,000	110,950	(14,950)
Public works	48,300	32,900	30,828	2,072
Community and economic development	37,700	41,700	41,251	449
Recreation and cultural	45,000	47,800	49,395	(1,595)
Other township	160,495	76,986	69,937	7,049
Contingency	9,224	9,224	-	9,224
Total Expenditures	576,980	605,571	601,508	4,063
Net Change in Fund Balances	-	(16,791)	(11,433)	5,358
Fund Balances, April 1	978,897	978,897	978,897	-
Fund Balances, March 31	\$ 978,897	\$ 962,106	\$ 967,464	\$ 5,358

See accompanying notes to basic financial statements.

LOWELL CHARTER TOWNSHIP
Statement of Net Assets
Proprietary Funds
March 31, 2007

	Water Enterprise	Sewer Enterprise	Total
Assets			
Current Assets			
Cash equivalents, deposits and investments (Note B)	\$ 1,125,241	\$ 761,199	\$ 1,886,440
Receivables:			
Accounts	88,024	42,428	130,452
Special assessments - current portion	25,000	25,000	50,000
Due from other funds (Note C)	4,681	-	4,681
Total Current Assets	<u>1,242,946</u>	<u>828,627</u>	<u>2,071,573</u>
Noncurrent Assets			
Special assessment receivable - net of current portion	61,908	24,723	86,631
Unamortized bond issue costs	24,010	4,082	28,092
Capital assets, net of accumulated depreciation (Note D)	1,384,744	478,493	1,863,237
Total Noncurrent Assets	<u>1,470,662</u>	<u>507,298</u>	<u>1,977,960</u>
Total Assets	<u>2,713,608</u>	<u>1,335,925</u>	<u>4,049,533</u>
Liabilities			
Current Liabilities			
Accounts payable	14,134	10,223	24,357
Accrued interest payable	5,646	-	5,646
Current portion of noncurrent liabilities	69,970	15,030	85,000
Total Current Liabilities	<u>89,750</u>	<u>25,253</u>	<u>115,003</u>
Noncurrent Liabilities (Note E)			
Revenue bonds payable	390,000	-	390,000
Special assessment bonds payable	149,850	75,150	225,000
Less current portion	(69,970)	(15,030)	(85,000)
Total Noncurrent Liabilities	<u>469,880</u>	<u>60,120</u>	<u>530,000</u>
Total Liabilities	<u>559,630</u>	<u>85,373</u>	<u>645,003</u>
Net Assets			
Invested in capital assets, net of related debt	844,894	403,343	1,248,237
Unrestricted	1,309,084	847,209	2,156,293
Total Net Assets	<u><u>\$ 2,153,978</u></u>	<u><u>\$ 1,250,552</u></u>	<u><u>\$ 3,404,530</u></u>

See accompanying notes to basic financial statements.

LOWELL CHARTER TOWNSHIP
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the year ended March 31, 2007

	Water Enterprise	Sewer Enterprise	Total
Operating Revenues			
Charges for services:			
Water sales	\$ 325,734	\$ -	\$ 325,734
Sewage disposal services	-	155,895	155,895
Penalties	7,354	-	7,354
Hydrant rental, other	23,045	2,315	25,360
	<u>356,133</u>	<u>158,210</u>	<u>514,343</u>
Total Operating Revenues			
Operating Expenses			
Administration	28,577	5,162	33,739
Operations and maintenance	148,577	120,124	268,701
Depreciation	69,073	23,464	92,537
	<u>246,227</u>	<u>148,750</u>	<u>394,977</u>
Total Operating Expenses			
Operating Income	<u>109,906</u>	<u>9,460</u>	<u>119,366</u>
Nonoperating Revenues (Expenses)			
Interest income	46,040	19,077	65,117
Interest expense	(24,439)	(3,877)	(28,316)
	<u>21,601</u>	<u>15,200</u>	<u>36,801</u>
Total Nonoperating Revenues (Expenses)			
Income Before Contributions and Transfers	131,507	24,660	156,167
Connection charges and contributions	45,082	300	45,382
	<u>176,589</u>	<u>24,960</u>	<u>201,549</u>
Change in Net Assets			
Net Assets, Beginning of Year	<u>1,977,389</u>	<u>1,225,592</u>	<u>3,202,981</u>
Net Assets, End of Year	<u><u>\$ 2,153,978</u></u>	<u><u>\$ 1,250,552</u></u>	<u><u>\$ 3,404,530</u></u>

See accompanying notes to basic financial statements.

LOWELL CHARTER TOWNSHIP
Statement of Cash Flows
Proprietary Funds
For the year ended March 31, 2007

	Water Enterprise	Sewer Enterprise	Total
Cash Flows From Operating Activities			
Receipts from customers	\$ 351,275	\$ 153,564	\$ 504,839
Payments to suppliers for goods and services	(159,548)	(123,704)	(283,252)
Payments to employees for services	(33,258)	-	(33,258)
Net Cash Provided By Operating Activities	<u>158,469</u>	<u>29,860</u>	<u>188,329</u>
Cash Flows From Capital and Related Financing Activities			
Connection charges and contributions	45,082	300	45,382
Collection of special assessments	12,466	8,567	21,033
Principal paid on bonds and loans	(130,188)	(16,700)	(146,888)
Interest paid on bonds	(24,927)	(3,877)	(28,804)
Net Cash Used By Capital and Related Financing Activities	<u>(97,567)</u>	<u>(11,710)</u>	<u>(109,277)</u>
Cash Flows From Investing Activities			
Purchase of investments	(331,358)	(155,550)	(486,908)
Interest received	46,040	19,077	65,117
Net Cash Used By Investing Activities	<u>(285,318)</u>	<u>(136,473)</u>	<u>(421,791)</u>
Net Decrease In Cash and Cash Equivalents	<u>(224,416)</u>	<u>(118,323)</u>	<u>(342,739)</u>
Cash and Cash Equivalents, beginning of year	<u>481,983</u>	<u>304,362</u>	<u>786,345</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 257,567</u></u>	<u><u>\$ 186,039</u></u>	<u><u>\$ 443,606</u></u>
Allocation of Cash Equivalents, Deposits and Investments			
Cash equivalents	\$ 257,567	\$ 186,039	\$ 443,606
Certificates of deposit and investments	867,674	575,160	1,442,834
Total Cash Equivalents, Deposits and Investments Per Statement of Net Assets	<u><u>\$ 1,125,241</u></u>	<u><u>\$ 761,199</u></u>	<u><u>\$ 1,886,440</u></u>
Reconciliation of Operating Income To Net Cash Provided By Operating Activities			
Operating income	<u>\$ 109,906</u>	<u>\$ 9,460</u>	<u>\$ 119,366</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	73,074	24,484	97,558
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(4,858)	(4,646)	(9,504)
(Increase) decrease in due to other funds	(4,681)	-	(4,681)
Increase (decrease) in accounts payable	(14,972)	562	(14,410)
Total adjustments	<u>48,563</u>	<u>20,400</u>	<u>68,963</u>
Net Cash Provided By Operating Activities	<u><u>\$ 158,469</u></u>	<u><u>\$ 29,860</u></u>	<u><u>\$ 188,329</u></u>

See accompanying notes to basic financial statements.

LOWELL CHARTER TOWNSHIP
Statement of Net Assets
Fiduciary Funds
March 31, 2007

	<u>Agency Funds</u>
Assets	
Cash equivalents, deposits and investments (Note B)	<u>\$ 39,972</u>
Liabilities	
Due to other governmental units	\$ 16,673
Escrow deposits	<u>23,299</u>
Total Liabilities	<u>\$ 39,972</u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

LOWELL CHARTER TOWNSHIP
Notes to Basic Financial Statements
March 31, 2007

Note A – Summary of Significant Accounting Policies

Lowell Charter Township (the “Township”) is incorporated as a charter township under provisions of Act 359, Public Acts of 1947, as amended by the Public Acts of 1976. The Township is governed by a Board of Trustees which consists of a Supervisor, Clerk, Treasurer and four Trustees. The Township provides, or contributes to the providing of, the following services to its residents as provided by statute: public safety (fire), highways and streets, sewer and water, parks and recreation, public improvements, planning and zoning, general administrative and other services.

The financial statements of the Township have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to Townships. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the Township’s accounting policies are described below.

1. Reporting Entity

The accompanying financial statements present the Township of Lowell. The Township has no component units, entities for which the Township is considered to be financially accountable.

2. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements - The Government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the Township as a whole. The reported information includes all of the nonfiduciary activities of the Township. The Township does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the Township. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The Township’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, state revenue sharing, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

LOWELL CHARTER TOWNSHIP
Notes to Basic Financial Statements
March 31, 2007

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

The Township reports the following major governmental fund:

The *General Fund* is the Township's primary operating fund. It accounts for all financial resources of the general government except those that are required to be accounted for in another fund.

The Township reports the following major proprietary funds:

The *Sewer Enterprise Fund* accounts for the operations of the Township's sewer department that provides sewer services to residents of the Township on a user charge basis.

The *Water Enterprise Fund* accounts for the operations of the Township's water department that provides water services to residents of the Township on a user charge basis.

Additionally, the Township reports the following fund types:

The *Cemetery Permanent Fund* accounts for fees collected to be used for cemetery improvements.

The *Escrow Agency Fund* accounts for the collection of escrow deposits and the payment to the governmental units or other persons entitled to receive these funds.

The *Trust Account Agency Fund* accounts for the collection of bonds and deposits and the payment to the governmental units or other persons entitled to receive these funds.

The *Tax Account Agency Fund* accounts for the collection of current and delinquent property taxes and the payment to the governmental units or other persons entitled to receive these funds.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the government-wide level. Reconciliations between the two sets of statements are provided in separate statements.

LOWELL CHARTER TOWNSHIP
Notes to Basic Financial Statements
March 31, 2007

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Taxes, intergovernmental revenues and interest associated with current period are all considered to susceptible to accrual and have been recognized as revenues of the current fiscal period. Property taxes levied for the subsequent fiscal year are presented as deferred revenue at fiscal year end.

Expenditures are recorded when the liability is incurred, as under accrual accounting, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt and claims and judgments are recorded only when the payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt are reported as other financing sources.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund are charges for services. Operating expenses for the enterprise fund include wages, benefits, supplies, utilities, charges for services and depreciation on capital assets. All revenues and expenses not meeting this definition are reported a nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

The budget presented in the financial statements was prepared on the same basis as the accounting basis used to reflect actual results. The General Fund is subject to legal budgetary accounting controls and is budgeted annually. The Township utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- The budget is generated with input from the Supervisor, Clerk, Treasurer and the Township Trustees.
- The completed budgets are then presented to Township electors at a public budget hearing at which time taxpayer comments and recommendations are heard. These operating budgets include proposed expenditures and the means of financing them for the General Fund.
- Prior to April 1, the budget is legally enacted on a departmental (activity) basis through passage of an appropriations resolution.
- The budget may only be amended by action of the Township Board.

LOWELL CHARTER TOWNSHIP
Notes to Basic Financial Statements
March 31, 2007

- Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
- Budget appropriations lapse at fiscal year-end.
- Encumbrance accounting is not utilized.
- The original General Fund budget was amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act). The budget to actual revenues and expenditures in the financial statements represent the final budget as amended by the Township.
- The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the departmental (activity) level for the General Fund.

5. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

6. Inventory

Inventory recorded in the enterprise funds is valued at the lower of cost or market, on the first-in first-out basis. Inventories consist of expendable operating supplies, meters and related materials and parts.

7. Capital Assets

Capital assets, which include property, plant and equipment, vehicles and construction in process, are reported in the government-wide financial statements. Capital assets are also presented in the proprietary fund statements. Assets having a useful life in excess of one year and whose costs exceed \$1,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Depreciation on the capital assets of the primary government is computed using the straight-line method over the following estimated useful lives:

Water and sewer distribution systems	30 years
Land improvements	20-40 years
Building and building improvements	40 years
Office furnishings and equipment	5-15 years

LOWELL CHARTER TOWNSHIP
Notes to Basic Financial Statements
March 31, 2007

8. Property Taxes

Property taxes for the Township are attached as an enforceable lien on property as of December 1 of each year. Taxes are levied December 1 and are due without penalty on or before February 14. These winter tax bills include the Township's own property taxes and taxes billed on behalf of the school districts within the Township; summer taxes are collected for other entities within the Township. Real property taxes not collected are returned to Kent County for collection, which advances one hundred percent of the delinquent taxes to the Township. Subsequent to the close of the fiscal year, the taxes collected from December 1 to March 31, plus the advance from the County, are included in property tax revenues for the fiscal year. The collection of delinquent personal property taxes remains the responsibility of the Township Treasurer.

9. Long-Term Obligations

In the government-wide financial statements and proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund types in the Statements of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

10. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws or regulations from other governments.

11. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Proprietary funds report restricted net assets equal to restricted assets less related liabilities.

12. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as transfers in or out. Transfers between governmental funds are eliminated in the Statement of Activities. Transfers in the fund financial statements are reported as other financing sources/uses.

LOWELL CHARTER TOWNSHIP
Notes to Basic Financial Statements
March 31, 2007

13. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

14. Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts, and errors and omissions claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Township has not purchased commercial insurance for coverage of health claims for employees. In lieu of this, employees receive a cash benefit.

Note B – Cash Equivalents, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.
- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school Township in Michigan.

LOWELL CHARTER TOWNSHIP
Notes to Basic Financial Statements
March 31, 2007

- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a Township in Michigan.

Balances at March 31, 2007 related to cash equivalents, deposits and investments are detailed in the Basic Financial Statements as follows:

Cash equivalents, deposits and investments per the Statement of Net Assets:	
Governmental and business-type activities	\$2,877,037
Cash equivalents, deposits and investments of Fiduciary Funds:	
Agency Funds	<u>39,972</u>
	<u><u>\$2,917,009</u></u>

Cash Equivalents and Deposits

Cash equivalents consist of bank public funds checking, savings and money market accounts. Deposits consist of certificates of deposit.

Depositories actively used by the Township during the year are detailed as follows:

1. Huntington National Bank
2. Fifth Third Bank
3. Independent Bank
4. Ionia County National Bank
5. Mercantile Bank
6. Byron Bank
7. Flagstar Bank
8. United Bank of Michigan
9. HSBC Bank, USA

March 31, 2007 balances are detailed as follows:

Cash equivalents	\$ 681,470
Deposits	<u>1,994,381</u>
	<u><u>\$ 2,675,851</u></u>

Custodial credit risk

Custodial credit risk is the risk that in the event of bank failure, the Township's deposits may not be returned to the Township. Protection of Township cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the Township's cash equivalents and deposits was \$2,675,851 and the bank balance was \$2,676,712. Of the bank balance \$795,800 was covered by federal depository insurance and \$1,880,912 was uninsured and uncollateralized.

LOWELL CHARTER TOWNSHIP
Notes to Basic Financial Statements
March 31, 2007

Investments

Investments consist of surplus funds investment pools and U.S. Government Agency securities.

As of March 31, 2007 the Township had the following investments in their portfolio:

	<u>Fair Value</u>
Investment Pool Accounts:	
Putnam Investments	\$ 125,761
Edward Jones	57,794
U.S. Government Agency Securities:	
Federal National Mortgage Association (FNMA)	31,835
Government National Mortgage Association (GNMA)	<u>25,768</u>
	<u><u>\$ 241,158</u></u>

The Weighted Average Maturity (in years) for the U.S. Agency Securities was 22.50 at March 31, 2007.

Custodial Credit Risk and Interest Rate Risk

It is the policy of Lowell Charter Township to invest public funds in a manner that will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to state and local statutes governing the investment of public funds.

Foreign Currency Risk

The Township is not authorized to invest in investments which have this type of risk.

Note C – Due From (To) Other Funds

Amounts due from (to) other funds at March 31, 2007 representing expenditure allocations to be repaid in 2007-08 are detailed as follows:

	<u>Due From</u>	<u>Due To</u>
Major Funds		
General Fund:		
Water Enterprise Fund	\$ —	\$ 4,681
Water Enterprise Fund:		
General Fund	<u>4,681</u>	<u>—</u>
Total	<u><u>\$ 4,681</u></u>	<u><u>\$ 4,681</u></u>

LOWELL CHARTER TOWNSHIP
Notes to Basic Financial Statements
March 31, 2007

Note D – Capital Assets

Capital asset activity for the year ended March 31, 2007 was as follows:

	<u>Balances</u> <u>April 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>March 31, 2007</u>
Governmental Activities				
Capital assets not depreciated:				
Land	\$ 155,596	\$ –	\$ –	\$ 155,596
Capital assets being depreciated:				
Land improvements	682,745	22,680	11,588	693,837
Buildings and improvements	953,197	8,904	–	962,101
Office furnishings and equipment	213,824	21,585	–	235,409
	<u>2,005,362</u>	<u>\$ 53,169</u>	<u>\$ 11,588</u>	<u>2,046,943</u>
Less accumulated depreciation for:				
Land improvements	106,412	\$ 23,422	\$ 1,062	128,772
Buildings and improvements	233,779	25,759	–	259,538
Office furnishings and equipment	122,303	10,786	–	133,089
	<u>462,494</u>	<u>\$ 59,967</u>	<u>\$ 1,062</u>	<u>521,399</u>
Total accumulated depreciation				
	<u>462,494</u>	<u>\$ 59,967</u>	<u>\$ 1,062</u>	<u>521,399</u>
Net Capital Assets -				
Governmental Activities	<u>\$ 1,542,868</u>			<u>\$ 1,525,544</u>

Depreciation expense was charged to Township governmental activities as follows:

General government	\$ 25,319
Recreation and cultural	<u>34,648</u>
	<u>\$ 59,967</u>

LOWELL CHARTER TOWNSHIP
Notes to Basic Financial Statements
March 31, 2007

	<u>Balances</u> <u>April 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>March 31, 2007</u>
Business-type Activities				
Capital assets not depreciated:				
Land	\$ 36,158	\$ —	\$ —	\$ 36,158
Capital assets being depreciated:				
Sewer system	685,249			685,249
Water system	2,063,547	—	—	2,063,547
Totals at historical cost	2,784,954	\$ —	\$ —	2,784,954
Less accumulated depreciation for:				
Sewer system	184,292	\$ 23,464	\$ —	207,756
Water system	644,888	69,073	—	713,961
Total accumulated depreciation	829,180	\$ 92,537	\$ —	921,717
Net Capital Assets - Business-type Activities	<u>\$ 1,955,774</u>			<u>\$ 1,863,237</u>

Depreciation expense was charged to business-type activities of the Township as follows:

Sewer	\$ 23,464
Water	69,073
	<u>\$ 92,537</u>

Note E –Long-Term Debt

The following is a summary of long-term debt transactions for the year ended March 31, 2007:

	<u>Debt</u> <u>Outstanding</u> <u>April 1, 2006</u>	<u>Debt</u> <u>Added</u>	<u>Debt</u> <u>Retired</u>	<u>Debt</u> <u>Outstanding</u> <u>March 31, 2007</u>
Business-type Activities				
Bond issues:				
Revenue bonds:				
February 18, 2004	\$ 435,000	\$ —	\$ 45,000	\$ 390,000
Special assessment bonds:				
February 1, 2002	275,000	—	50,000	225,000
Total Long-term Debt	<u>\$ 710,000</u>	<u>\$ —</u>	<u>\$ 95,000</u>	<u>\$ 615,000</u>

LOWELL CHARTER TOWNSHIP
Notes to Basic Financial Statements
March 31, 2007

Long-term bonds at March 31, 2007 are comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
Business-type activities				
Revenue bonds:				
\$470M 2004 MMBA Water System Bonds:				
Annual maturities of \$40M to \$55M	May 1, 2014	2.25 - 4.00	\$ 390,000	\$ 40,000
Special assessment bonds:				
\$449M 2002 Water and Sewer System Bonds:				
Annual maturities of \$45M	March 1, 2012	4.00 - 4.50	225,000	45,000
Total Business-type Activities			<u>\$ 615,000</u>	<u>\$ 85,000</u>

The annual requirements to pay principal and interest on long-term debt outstanding at March 31, 2007 are as follows:

Year Ended March 31	Business-Type Activities		
	Principal	Interest	Total
2008	\$ 85,000	\$ 24,273	\$ 109,273
2009	90,000	19,415	109,415
2010	90,000	16,265	106,265
2011	95,000	12,842	107,842
2012	95,000	9,175	104,175
2013	50,000	5,338	55,338
2014	55,000	3,300	58,300
2015	55,000	1,100	56,100
	<u>\$ 615,000</u>	<u>\$ 91,708</u>	<u>\$ 706,708</u>

LOWELL CHARTER TOWNSHIP
Notes to Basic Financial Statements
March 31, 2007

Note F – Pension Plan/Defined Contribution

The Township provides retirement benefits to all of its elected and appointed officials and employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after three months of employment, as long as a minimum of 16 hours a week is worked. The plan is established by Internal Revenue Service Code Section 414(c)(2). Participants and the Township are required to contribute 5 percent and 10 percent, respectively, of each participant's gross wages. In addition, the Township and employees may make discretionary contributions up to 10 percent of covered wages. Discretionary contributions were not made in the current year by the Township. The contributions and investment interest allocated to the employee's account are fully vested immediately.

The Township's covered payroll for the plan year ending December 31, 2006 was \$170,425. The current year employer contribution was \$17,043 and employee contributions were \$19,203.

Note G – Contingencies/Litigation

In the normal course of its activities, the Township has become a party in various legal actions, including property tax assessment appeals. Management of the Township is of the opinion that the outcome of such actions will not have a material effect on the financial position of the Township and, therefore, has not reflected loss reserves in the financial statements.

SUPPLEMENTAL INFORMATION

AGENCY FUNDS

LOWELL CHARTER TOWNSHIP
All Agency Funds
Combining Schedule of Changes in Assets and Liabilities
For the year ended March 31, 2007

	Balances April 1, 2006	Additions	Deductions	Balances March 31, 2007
Escrow Fund				
Assets				
Cash equivalents, deposits and investments	\$ 26,832	\$ 10,008	\$ 13,541	\$ 23,299
Liabilities				
Escrow deposits	\$ 26,832	\$ 10,008	\$ 13,541	\$ 23,299
Trust Account Fund				
Assets				
Cash equivalents, deposits and investments	\$ 11,451	\$ 143,133	\$ 137,911	\$ 16,673
Liabilities				
Accounts payable	\$ -	\$ 103,770	\$ 103,770	\$ -
Due to other funds	-	3,292	3,292	-
Due to other governmental units	11,451	36,071	30,849	16,673
Total Liabilities	\$ 11,451	\$ 143,133	\$ 137,911	\$ 16,673
Tax Account Agency Fund				
Assets				
Cash equivalents, deposits and investments	\$ -	\$ 9,338,088	\$ 9,338,088	\$ -
Liabilities				
Accounts payable	\$ -	\$ 13,811	\$ 13,811	\$ -
Due to other funds	-	164,339	164,339	-
Due to other governmental units	-	9,159,938	9,159,938	-
Total Liabilities	\$ -	\$ 9,338,088	\$ 9,338,088	\$ -
Totals - All Agency Funds				
Assets				
Cash equivalents, deposits and investments	\$ 38,283	\$ 9,491,229	\$ 9,489,540	\$ 39,972
Liabilities				
Accounts payable	\$ -	\$ 117,581	\$ 117,581	\$ -
Due to other funds	-	167,631	167,631	-
Due to other governmental units	11,451	9,196,009	9,190,787	16,673
Escrow deposits	26,832	10,008	13,541	23,299
Total Liabilities	\$ 38,283	\$ 9,491,229	\$ 9,489,540	\$ 39,972

LOWELL CHARTER TOWNSHIP
Summary of 2006 Taxes Levied and Collected
For the year ended March 31, 2007

	<u>Taxable Valuation</u>	<u>Rate (Mills)</u>	<u>Taxes Levied</u>	<u>Returned Delinquent</u>	<u>Current Collections</u>
Ad Valorem Taxes					
Kent County					
Operating	\$162,921,456	5.3140	\$ 878,776	\$ 62,186	\$ 816,590
Kent District Library	162,921,456	0.8800	143,360	11,429	131,931
State Education Tax					
Caledonia Community Schools	925,114	6.0000	5,551	-	5,551
Lowell Area Schools	161,996,342	6.0000	971,970	61,374	910,596
			<u>977,521</u>	<u>61,374</u>	<u>916,147</u>
School Districts					
Kent Intermediate School District	162,921,456	4.5333	764,139	47,977	716,162
Grand Rapids Community College	162,921,456	1.7865	291,048	18,273	272,775
Caledonia Community Schools:					
Other	925,114	7.0000	6,476	-	6,476
Operating	162,516	18.0000	2,925	-	2,925
Lowell Area Schools:					
Other	161,996,342	7.0000	1,133,957	81,262	1,052,695
Operating	36,441,071	16.9751	655,936	89,143	566,793
Total School Districts			2,854,481	236,655	2,617,826
Lowell Charter Township					
Operating	162,921,456	0.7888	130,000	10,364	119,636
Street lighting assessments			6,716	460	6,256
Sewer and water assessments			14,660	13,312	1,348
Delinquent sewer and water			33,588	3,505	30,083
Total Township			<u>184,964</u>	<u>27,641</u>	<u>157,323</u>
Total Ad Valorem Taxes			<u>\$ 5,039,102</u>	<u>\$ 399,285</u>	<u>\$4,639,817</u>

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

July 9, 2007

The Township Board
Lowell Charter Township
Kent County, Michigan

The following comments pertain to our audit of the financial records of Lowell Charter Township as of and for the year ended March 31, 2007. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this Statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the Township's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of Lowell Charter Township.

Auditors Responsibility Under Generally Accepted Auditing Standards

We conducted our audit in accordance with Generally Accepted Auditing Standards (GAAS). Those standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. We are required by GAAS to obtain a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing and extent of tests to be performed. The purpose of the audit was to report on the financial statements and not to provide assurance on the internal control structure. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected.

Significant Accounting Policies

The elected officials and management of Lowell Charter Township have the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter will advise the Township elected officials and management about the appropriateness of accounting policies and their application. The significant accounting policies used by Lowell Charter Township are described in Note A of the Notes to Basic Financial Statements in the Comprehensive Annual Financial Report.

Difficulties Encountered In Performing The Audit

We encountered no significant difficulties in performing our audit of the financial records of Lowell Charter Township. We found that the internal control structure and accounting system was adequate and operating in the manner intended.

Significant Audit Adjustments

During the course of our audit the following adjustments of a significant nature were made to the accounting records of the Township to bring the balances to those presented in the financial statements.

General Fund

1. \$18,551 to accrue and reverse property taxes receivable due from Kent County at March 31, 2007 and 2006.
2. \$14,334 to classify General Fund investments at year-end to the correct accounts on the Township's computer accounting system.
3. \$66,756 to adjust designated fund balances to actual amounts at March 31, 2007.

Water Enterprise Fund

1. \$16,388 to record utility bills receivable at March 31, 2007
2. \$69,073 to record depreciation expense on Water System assets for the fiscal year.

Sewer Enterprise Fund

1. \$23,464 to record depreciation expense on Sewer System assets for the fiscal year.

Passed Audit Adjustments

There were no adjustments proposed during the audit that were not recorded by Lowell Charter Township.

Suggestions and Recommendations

We offered suggestions and recommendations of a minor nature regarding the day-to-day operations of the accounting system to the Township Clerk and Treasurer as the topics arose during the course of our audit field work. Hopefully, these suggestions will ease the day-to-day operations of the Township's business office and assist in more efficient monthly and year end financial record keeping and reporting.

* * * * *

This communication is intended solely for the information and use of the Township Board, officers, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Treasury as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to Lowell Charter Township and hope to continue to do so in the future. We also appreciate the dedication and cooperation of Lowell Charter Township Clerk and Treasurer in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communication, we will be happy to address them.

Hungerford, Alden, Nichols & Martin, P.C.

Certified Public Accountants

Hungerford, Aldrin,
Nichols & Carter, P.C.

CPAs AND CONSULTANTS

July 9, 2007

The Township Board
Lowell Charter Township
Kent County, Michigan

The following comments pertain to our audit of the financial records of Lowell Charter Township as of and for the year ended March 31, 2007. The comments are made in accordance with Statement on Auditing Standards No. 112 "*Communicating Internal Control Related Matters Identified in an Audit*" which has the following two unconditional requirements:

- The auditor must evaluate identified *control deficiencies* and determine whether those deficiencies, individually or in combination, are *significant deficiencies* or *material weaknesses*.
- The auditor *must communicate, in writing, significant deficiencies and material weaknesses* to management and those charged with governance. This communication includes significant deficiencies and material weaknesses identified and communicated to management and those charged with governance in prior audits but not yet remediated.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is *more than a remote likelihood* that a misstatement of the entity's financial statements that is *more than inconsequential* will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in *more than a remote likelihood* that a *material misstatement of the financial statements* will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness:

The following describe circumstances that may be control deficiencies, significant deficiencies, or material weaknesses:

- Inadequate *design* of internal control over a significant account or process.
- Inadequate *documentation* of the components of internal control.
- Insufficient *control consciousness* within the organization, for example, the tone at the top and the control environment.
- Inadequate or absent *segregation of duties* within a significant account or process.
- Inadequate design of *information technology* (IT) general and application controls.
- Inadequate design of *monitoring* controls used to assess the design and operating effectiveness of internal controls.
- The absence of an internal process to *report deficiencies* in internal controls to management on a timely basis.
- Employees or management who *lack the qualifications and training* to fulfill their assigned functions. For example, in an entity that prepares financial statements in accordance with Generally Accepted Accounting Principles (GAAP), the person responsible for the accounting and reporting function lacks the skills and knowledge to apply (GAAP) in recording the entity's financial transactions or *preparing its financial statements* (including the notes to basic financial statements).

The management of Lowell Charter Township is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

In planning and performing our audit of the financial statements of Lowell Charter Township as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Lowell Charter Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

- Employees or management who lack the qualifications and training to fulfill their assigned functions; i.e. the lack of knowledge and skills present to apply Generally Accepted Accounting Principles (GAAP) in preparing the Township's financial statements (including the notes to basic financial statements).

This communication is intended solely for the information and use of management, the Township Board, others within the organization, and the Michigan Department of Treasury. It is not intended to be and should not be used by anyone other than these specified parties.

Hungerford, Alden, Nichols & Carter, P.C.

Certified Public Accountants